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**BULLETIN NO. 12
INFLATION RATE
NOVEMBER 6, 2007**

**TO: Assessors
Equalization Directors**

FROM: State Tax Commission

**RE: Inflation Rate Multiplier for use in the 2008 capped value formula and the
2008 "Headlee" Millage Reduction Fraction (MRF) formula**

Note: The Calculation of the Inflation Rate Multiplier is set in statute. MCL 211.34d states:

(l) "Inflation rate" means the ratio of the general price level for the state fiscal year ending in the calendar year immediately preceding the current year divided by the general price level for the state fiscal year ending in the calendar year before the year immediately preceding the current year.

(f) "General price level" means the annual average of the 12 monthly values for the United States consumer price index for all urban consumers as defined and officially reported by the United States department of labor, bureau of labor statistics.

Based on this statutory requirement, the calculation for 2008 is as follows:

1. The 12 monthly values for October 2005 through September 2006 are averaged.
2. The 12 monthly values for October 2006 through September 2007 are averaged.
3. The ratio is calculated by dividing the average of column 2 by the average of column 1.

The specific numbers from the US Department of Labor, Bureau of Labor Statistics are as follows:

Oct-05	199.2	Oct-06	201.8
Nov-05	197.6	Nov-06	201.5
Dec-05	196.8	Dec-06	201.8
Jan-06	198.3	Jan-07	202.4
Feb-06	198.7	Feb-07	203.5
Mar-06	199.8	Mar-07	205.4
Apr-06	201.5	Apr-07	206.7
May-06	202.5	May-07	207.9
Jun-06	202.9	Jun-07	208.4
Jul-06	203.5	Jul-07	208.3
Aug-06	203.9	Aug-07	207.9
Sep-06	202.9	Sep-07	208.5
Average	200.6		205.3
		Ratio	1.023
		% Change	2.3%

Local units cannot develop or adopt or use an inflation rate multiplier other than 1.023 in 2008. It is not acceptable for Local units to indicate to taxpayers that you do not know how the multiplier is developed.

➤ **Inflation Rate Multiplier Used in the 2008 Capped Value Formula**

The inflation rate, expressed as a multiplier, to be used in the 2008 Capped Value Formula is **1.023**.

The 2008 Capped Value Formula is as follows:

$$\text{2008 CAPPED VALUE} = (\text{2007 Taxable Value} - \text{LOSSES}) \times \text{1.023} + \text{ADDITIONS}$$

The formula above does not include 1.05 because the inflation rate multiplier of **1.023** is lower than 1.05.

➤ **Inflation Rate Multiplier Used in 2008 “Headlee” Calculations**

The inflation rate multiplier of **1.023** shall ALSO be used in the calculation of the 2008 “Headlee” Millage Reduction Fraction required by Michigan Compiled Law (MCL) 211.34d.

The formula for calculating the 2008 “Headlee” Millage Reduction Fraction (MRF) is as follows:

$$\text{2008 MRF} = \frac{(\text{2007 Taxable Value} - \text{LOSSES}) \times \text{1.023}}{\text{2008 Taxable Value} - \text{ADDITIONS}}$$

- The following is a listing of the inflation rate multipliers used in the Capped Value and "Headlee" calculations since the start of Proposal A:

1995	1.026
1996	1.028
1997	1.028
1998	1.027
1999	1.016
2000	1.019
2001	1.032
2002	1.032
2003	1.015
2004	1.023
2005	1.023
2006	1.033
2007	1.037
2008	1.023